2007

ANNUAL REPORT

SGI CANADA Insurance Services Ltd.

Responsibility for Financial Statements

The consolidated financial statements are the responsibility of Management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of Management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of SGI CANADA Insurance Services Ltd. (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of Management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities and to issue a report thereon to the shareholders and regulatory authorities. The valuation is carried out in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of Management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without Management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

KPMG have been appointed external auditors. Their responsibility is to report to the shareholder and regulatory authorities regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Jon Schubert
President

Don Thompson
Chief Financial Officer

February 20, 2008

Actuary's Report

To the Shareholder of SGI CANADA Insurance Services Ltd.

I have valued the policy liabilities of SGI CANADA Insurance Services Ltd. for its consolidated statement of financial position at December 31, 2007 and their change in the consolidated statement of operations for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods.

In my opinion, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.

Andrea Sherry
Assistant Vice President, Corporate Actuary
Saskatchewan Government Insurance
Fellow, Canadian Institute of Actuaries

February 20, 2008

Auditors' Report

To the Shareholder of SGI CANADA Insurance Services Ltd.

We have audited the consolidated statement of financial position of SGI CANADA Insurance Services Ltd. as at December 31, 2007 and the consolidated statements of operations, comprehensive income, changes in shareholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 20, 2008

Consolidated Statement of Financial Position

December 31	2007	2006
	(thousands of $)	
Assets		
Cash and cash equivalents (note 3)	$ 8,664	$ 3,448
Accounts receivable (note 4)	26,260	27,823
Deferred policy acquisition costs	7,354	5,724
Reinsurers' share of unearned premiums (note 7)	1,097	865
Future income taxes (note 12)	1,903	3,150
Goodwill	481	481
Investments (note 5)	151,507	144,797
Unpaid claims recoverable from reinsurers (notes 7 & 8)	32,119	29,504
Property, plant and equipment (note 6)	111	69
	$229,496	$215,861
Liabilities		
Accounts payable	$ 9,126	$ 12,329
Premium taxes payable	643	376
Amounts due to reinsurers (note 7)	19,182	15,601
Unearned reinsurance commissions	228	175
Unearned premiums	31,550	25,760
Provision for unpaid claims (note 8)	91,845	93,508
	152,574	147,749
Non-controlling interest	1,709	1,792
Shareholder's equity		
Share capital (note 9)	27,254	27,254
Contributed surplus	32,487	32,487
Retained earnings	15,444	6,579
Accumulated other comprehensive income (note 2)	28	–
	75,213	66,320
	$229,496	$215,861

Commitments and contingencies (note 18)
(see accompanying notes)
On behalf of the Board:

Jon Schubert – Director

Randy Heise – Director

Consolidated Statement of Operations

year ended December 31	2007	2006
	(thousands of $)	
Gross premiums written	$ 59,137	$ 51,559
Net premiums written	$ 55,785	$ 48,767
Net premiums earned (note 7)	$ 50,478	$ 44,017
Claims incurred (note 7)	29,429	18,763
Commissions (note 7)	10,118	9,013
Administrative expenses (note 7)	7,478	5,749
Premium taxes (note 7)	1,911	1,698
Facility Association participation (note 16)	(133)	(597)
Total claims and expenses	48,803	34,626
Underwriting profit	1,675	9,391
Investment earnings (note 10)	7,733	7,125
Income before deficiency (excess) from service agreement, income taxes and non-controlling interest	9,408	16,516
Deficiency (excess) from service agreement (note 11)	(1,532)	1,588
Income before income taxes and non-controlling interest	10,940	14,928
Income taxes (note 12)	2,055	1,377
Income after income taxes and before non-controlling interest	8,885	13,551
Non-controlling interest	166	480
Net income	$ 8,719	$ 13,071

(see accompanying notes)

Consolidated Statement of Comprehensive Income

year ended December 31	2007
	(thousands of $)
Net income	$8,719
Other comprehensive loss, net of income taxes:	
Unrealized losses on available for sale financial assets arising during the year	(2,004)
Income tax recovery on unrealized losses	723
	(1,281)
Reclassification for realized losses on sale of investments included in net income	347
Net income tax recovery on losses	(118)
	229
Other comprehensive loss	(1,052)
Comprehensive income	$7,667

(see accompanying notes)

Consolidated Statement of Changes in Shareholder's Equity

year ended December 31	2007	2006
	(thousands of $)	
Share capital		
Balance, end of period	$ 27,254	$ 27,254
Contributed surplus		
Balance, end of period	$ 32,487	$ 32,487
Retained earnings		
Balance, beginning of period	$ 6,579	$ (6,492)
Change in accounting policy (note 2)	146	–
Net income	8,719	13,071
Balance, end of period	$ 15,444	$ 6,579
Accumulated other comprehensive income		
Balance, beginning of period	$ –	$ –
Change in accounting policy (note 2)	1,080	–
Other comprehensive loss	(1,052)	–
Balance, end of period	$ 28	$ –
Total shareholder's equity	$ 75,213	$ 66,320

(see accompanying notes)

Consolidated Statement of Cash Flows

year ended December 31	2007	2006
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income	$ 8,719	$ 13,071
Non-cash items:		
Amortization	115	612
Net realized loss (gain) on sale of investments	347	(264)
Future income taxes	1,000	(341)
Income from investments accounted for on the equity basis	(195)	(215)
Non-controlling interest	(83)	169
Change in non-cash operating items (note 13)	2,140	(4,320)
	12,043	8,712
Investing activities		
Purchases of investments	(267,191)	(258,241)
Proceeds on sale of investments	260,442	242,241
Purchases of property, plant and equipment	(78)	(59)
	(6,827)	(16,059)
Increase (decrease) in cash and cash equivalents	**5,216**	(7,347)
Cash and cash equivalents, beginning of year	3,448	10,795
Cash and cash equivalents, end of year	**$ 8,664**	$ 3,448
Supplemental cash flow information:		
Income taxes paid	$ 1,823	$ 2,273

(see accompanying notes)

Notes to the Consolidated Financial Statements

December 31, 2007

1. NATURE OF OPERATIONS

SGI CANADA Insurance Services Ltd. (the Corporation) conducts property and casualty business directly in Alberta and Manitoba, in Ontario through its wholly-owned subsidiary, Coachman Insurance Company (Coachman), and in Prince Edward Island, Nova Scotia and New Brunswick through its 75%-owned subsidiary, The Insurance Company of Prince Edward Island (ICPEI).

In many provinces in Canada, automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Alberta, Ontario, Prince Edward Island, New Brunswick and Nova Scotia which represent approximately 51% (2006 – 49%) of the Corporation's consolidated net premiums earned.

The Corporation was incorporated on July 18, 1990, under *The Business Corporations Act* (Saskatchewan). The Corporation holds a Saskatchewan provincial insurers' licence under *The Saskatchewan Insurance Act* and is licensed to conduct business in Alberta, Manitoba and Ontario.

Saskatchewan Government Insurance (SGI CANADA) owns 100% of the Corporation and its financial results are included in the consolidated financial statements of SGI CANADA.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Change in accounting policies

Effective January 1, 2007, the Corporation adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 1530, Comprehensive Income and Section 3855, Financial Instruments – Recognition and Measurement.

Section 1530 requires presentation of a Consolidated Statement of Comprehensive Income, as included in these Consolidated Financial Statements. Comprehensive income is comprised of net income and other comprehensive income (OCI). OCI represents changes in shareholder's equity during a period arising from transactions and other events with non-owner sources, other than net income. The change in OCI is recorded as accumulated other comprehensive income (AOCI) on the Consolidated Statement of Financial Position. The Corporation's OCI is comprised of the change in unrealized gains and losses on those investments designated as available for sale. Those unrealized gains and losses are included in AOCI on the Consolidated Statement of Financial Position. When the underlying investments are subsequently sold, or written down, the resulting realized gain or loss is released from AOCI into investment earnings in the Consolidated Statement of Operations.

Section 3855 establishes standards for recognizing and measuring financial assets and financial liabilities. The measurement basis depends on whether the financial instrument has been classified as held for trading, available for sale, held to maturity, loans and receivables, or other financial liabilities. Financial instruments classified as held for trading are measured at fair value and changes in fair value are recognized in net income. Financial instruments classified as available for sale are measured at fair value with changes in fair value recorded in OCI,

however, unrealized losses considered other than temporary continue to be recognized as a decrease to net income. The criteria to determine whether an unrealized loss is considered other than temporary, has not changed under the new section. Financial instruments designated as held to maturity, loans and receivables, or other financial liabilities are measured at amortized cost, using the effective interest rate method.

Prior to January 1, 2007, the Corporation amortized the purchase discount or premium from its investments by utilizing the straight-line method over the expected life of the investment. By adopting Section 3855, as of January 1, 2007, the Corporation is now using the effective interest rate method to calculate amortization.

The Corporation has designated its cash and cash equivalents and investments as available for sale, except for investments accounted for on the equity basis, which are exempt from Section 3855. Accounts receivable were designated as loans and receivables. Accounts payable and premium taxes payable were designated as other financial liabilities. Unpaid claims recoverable from reinsurers, amounts due to reinsurers and the provision for unpaid claims are exempt from Section 3855. The Corporation has no financial instruments designated as held for trading or held to maturity.

The adoption of these new sections was applied as of January 1, 2007, without restatement of comparative figures. The effect of the adoption at January 1, 2007, was to increase the carrying value of investments from $144,797,000 to $146,506,000, increase AOCI by $1,080,000 and decrease the future income taxes asset by $629,000. As a result of the changes in the carrying value of investments, the discount rate used in the actuarial determination of the provision for unpaid claims also changed. The impact of this change was a decrease to the provision for unpaid claims of $146,000 with an offsetting adjustment to opening retained earnings of $146,000.

Consolidation
The consolidated financial statements include the accounts of the Corporation, its 100%-owned subsidiary, Coachman, and its 75%-owned subsidiary, ICPEI. All inter-company accounts and transactions have been eliminated on consolidation.

Measurement uncertainty
The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 8), investment valuation (notes 2 and 5) and income taxes (note 12).

Investments
All investments are carried at fair value, except investments accounted for on the equity basis. The fair value of short-term investments is based on cost, which approximates fair value due to the immediate or short-term nature of these financial instruments. The fair value of bonds and debentures and common shares is determined based on quoted market values, based on the latest bid prices. The fair value of pooled equity funds is based on the quoted market values of the underlying investments, based on the latest bid prices.

Where the Corporation has investments in shares and exercises significant influence, the investments are accounted for on the equity basis and the Corporation's investment is adjusted for its share of the investee's net earnings or losses, and reduced by dividends received.

The Corporation records its investment purchases and sales on a trade-date basis, being the date when the transactions are entered into.

Investment earnings

The Corporation recognizes interest and premium financing revenue as earned, dividends when declared, pooled equity fund revenue when a distribution is declared, and investment gains and losses when realized.

Interest revenue includes amortization of any premium or discount recognized at date of purchase of the security. Amortization is calculated using the effective interest rate method. Realized gains and losses represent the difference between the amounts received through the sale of investments and their respective cost base. Interest is generally receivable on a semi-annual basis.

Transaction costs are included in the acquisition cost of individual investments. Direct investment expenses, such as external custodial, investment management and investment consultant expenses, are recorded against investment earnings.

When the fair value of an investment falls below its cost, and the decline is determined to be other than temporary, a loss equivalent to the difference between cost and fair value is recorded in investment earnings, as an investment write down.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currency are translated at the exchange rate in effect at the year-end date. Revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year. Unrealized foreign exchange gains and/or losses, arising on investments designated as available-for-sale, are included in other comprehensive income until realized, at which time they are reclassified from accumulated other comprehensive income to investment earnings. Translation gains and/or losses related to other financial assets and liabilities are charged to operations in the current year.

Premiums

Premiums written are taken into income over the terms of the related policies, no longer than 12 months. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. The estimate includes the cost of reported claims and claims incurred but not reported, and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities, as well as the benefit of losses available, to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income, in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not, that the asset will not be realized.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and treasury bills with a maturity of 90 days or less from the date of acquisition.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums, after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives of three to five years for computer hardware, software and other equipment.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess, and is presented as a separate line item in the statement of operations before extraordinary items and discontinued operations.

Future accounting policy changes
The CICA issued three new accounting standards that became effective for the Corporation on January 1, 2008. These standards are Handbook Section 1535, Capital Disclosures (Section 1535), Handbook Section 3862, Financial Instruments – Disclosures (Section 3862) and Handbook Section 3863, Financial Instruments – Presentation (Section 3863).

Section 1535 requires disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Corporation's objectives, policies and processes for managing capital.

Section 3862 and Section 3863 replace Handbook Section 3861, Financial Instruments – Disclosure and Presentation. The new standards do not have a significant impact on the presentation requirements, however, place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks.

3. CASH AND CASH EQUIVALENTS

	(thousands of $)	
	2007	2006
Treasury bills	$ 5,955	$ 3,233
Cash on hand	2,709	215
Total cash and cash equivalents	$ 8,664	$ 3,448

The average effective interest rate on the treasury bills is 4.3% (2006 – 4.4%).

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $)	
	2007	2006
Due from insureds	$ 15,660	$ 11,563
Facility Association receivable (note 16)	3,675	4,264
Due from brokers	3,517	2,546
Accrued investment income	1,263	1,109
Income taxes receivable	949	246
Due from reinsurers	922	1,154
Other	274	886
Investment proceeds receivable	–	6,055
Total accounts receivable	$ 26,260	$ 27,823

Included in due from insureds is $13,229,000 (2006 – $10,183,000) of financed premiums receivable, which represent the portion of our policyholders' monthly premium payments, that are not yet due. The majority of our policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and

the investment income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized over the period of the policy.

5. INVESTMENTS

As a result of adoption of CICA Handbook Section 3855 (note 2), the basis for the carrying value for investments has changed effective January 1, 2007. The carrying value of the Corporation's investments are as follows:

	(thousands of $) December 31 2007	January 1 2007	December 31 2006
Short-term investments	$ 15,847	$ 9,133	$ 9,133
Bonds and debentures	111,888	113,523	113,347
Pooled equity funds			
– Canadian	12,888	12,970	12,419
– United States	4,612	4,516	4,265
– Non-North American	4,626	4,799	4,201
Canadian common shares	303	297	164
	150,164	145,238	143,529
Investments accounted for on the equity basis	1,343	1,268	1,268
Total investments	$151,507	$146,506	$144,797

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Short-term investments:
Short-term investments are comprised of treasury bills with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 4.4% (2006 – 4.3%) and an average remaining term to maturity of 123 days (2006 – 115 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

(ii) Bonds and debentures:
The Corporation's investment policy states that the minimum quality standard for the purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio. No more than 10% of the market value of the bond portfolio shall be invested in bonds of foreign issuers and all bonds must be denominated in Canadian dollars.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

(thousands of $)

	2007		2006	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	$ –	–	$ 100	4.6%
After one through five	55,632	4.4%	62,592	4.4%
After five	1,633	4.7%	4,761	3.9%
Canadian provincial:				
One or less	–	–	177	5.8%
After one through five	14,731	5.5%	11,196	5.5%
After five	5,166	4.9%	6,168	5.0%
Canadian corporate:				
One or less	2,723	4.5%	–	–
After one through five	19,332	5.0%	23,410	4.6%
After five	12,671	4.6%	4,943	4.6%
Total bonds & debentures	$111,888		$113,347	

(iii) Pooled equity funds:
The Corporation owns units in Canadian, United States and non-North American pooled equity funds, that have no fixed distribution rate. Fund returns are based on the success of the fund managers.

(iv) Common shares:
Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. The average effective dividend rate is 5.4% (2006 – 5.0%).

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's common shares portfolio. As well, no one holding may represent more than 10% of the voting shares of any corporation.

(v) Investments accounted for on the equity basis:
The Corporation has a 21.25% (2006 – 25%) ownership interest in Charlie Cooke Insurance Agency Ltd., and a 25% ownership interest in Atlantic Adjusting & Appraisals Ltd. and Maritime Finance & Acceptance Corporation. The Corporation's ownership interest in Charlie Cooke Insurance Agency Ltd. declined by 3.75% during the year as a result of treasury shares issued to a new shareholder. A dilution gain of $76,000 was recorded on this transaction.

The fair value of investments accounted for on the equity basis is considered to approximate book value.

(vi) Unrealized loss positions:

The following table presents available-for-sale investments with unrealized losses at December 31, 2007, where the decline is considered temporary. The unrealized losses are recorded as a component of accumulated other comprehensive income.

	(thousands of $) 2007	
	Fair Value	Unrealized Losses
Bonds and debentures		
– Federal	$ 36,096	$ (125)
– Provincial	12,772	(102)
– Municipal	329	(2)
– Corporate	28,099	(487)
Pooled equity funds		
– Non-North American	4,626	(209)
	$ 81,922	$ (925)

As at December 31, 2007, the cost of 136 available-for-sale investments exceeded their fair value by $925,000. The unrealized losses on the bonds and debentures arose primarily from an increase in interest rates. For equities, unrealized losses are primarily the result of timing of the market prices or investment specific business environment factors. Since the Corporation has the ability to hold these securities until there is a recovery of fair value, which may be at maturity for bonds and debentures, these unrealized losses are considered temporary in nature.

The Corporation conducts a quarterly review to identify and evaluate investments that show indications of impairment. An investment is considered impaired if its fair value falls below its cost, and a write down is recorded in investment earnings when the decline is considered other than temporary. Factors considered in determining whether a loss is temporary include the length of time and extent to which fair value has been below cost, financial condition and near-term prospects of the issuer, and the ability to hold the investment for a period of time sufficient to allow for any anticipated recovery.

6. PROPERTY, PLANT AND EQUIPMENT

The components of the Corporation's investment in property, plant and equipment, as well as the related accumulated amortization, are as follows:

	(thousands of $) 2007			2006
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Building	$ 94	$ 26	$ 68	$ 20
Computer hardware, software and other equipment	858	815	43	49
Total	$ 952	$ 841	$ 111	$ 69

Amortization for the year is $36,000 (2006 – $15,000) and is included in administrative expenses on the Consolidated Statement of Operations.

7. UNDERWRITING POLICY AND REINSURANCE CEDED

The Corporation underwrites and reinsures contracts of insurance with SGI CANADA and other reinsurers, which limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $) 2007	2006
General liability and property	$ 250	$ 150
Automobile - other	250	250
Automobile - liability	500	250
Catastrophe	250	250

The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, commissions, premium taxes and administrative expenses:

	(thousands of $) 2007	2006
Premiums earned	$ 5,673	$ 4,809
Claims incurred	5,531	4,084
Commissions and premium taxes	325	248
Administrative expenses	68	52

8. PROVISION FOR UNPAID CLAIMS

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists regarding the cost of reported claims that have not been settled, as all the necessary information may not be available at the year-end date.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical claim payment trends, the characteristics of each class of business, claim severity and claim frequency, the effect of inflation on future claim settlement costs, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as physical damage or collision claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a number of individuals, which necessarily involves risk that actual results may differ materially from the estimates.

Changes in the estimate for the provision for unpaid claims are as follows:

	2007 (thousands of $)	2006 (thousands of $)
Net unpaid claims – beginning of year	$ 64,004	$ 74,780
Change in accounting policies (note 2)	(146)	–
Payments made during the year relating to:		
Prior year claims	(13,032)	(15,629)
Prior year service agreement claims	(3,215)	(3,231)
Prior year Facility Association claims	(624)	(286)
Deficiency (excess) relating to:		
Prior year estimated unpaid claims	(5,587)	(9,626)
Prior year estimated unpaid service agreement claims	(1,532)	1,588
Prior year estimated unpaid Facility Association claims	63	(902)
Net unpaid for claims of prior years	39,931	46,694
Provision for claims occurring in the current year	19,308	16,788
Provision for Facility Association claims occurring in the current year	487	522
Net unpaid claims – end of year	$ 59,726	$ 64,004

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has not been provided because it is not practicable to determine fair value with sufficient reliability.

(ii) Type of unpaid claims:
The provision for unpaid claims is summarized by line of business as follows:

(thousands of $)

	2007			2006		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	$ 64,812	$ 26,157	$ 38,655	$ 66,313	$ 25,180	$ 41,133
Property	9,145	3,274	5,871	7,145	2,064	5,081
Liability	10,640	2,688	7,952	7,949	2,260	5,689
Service agreement (note 10)	4,518	–	4,518	9,297	–	9,297
Facility Association (note 16)	2,730	–	2,730	2,804	–	2,804
Total	$ 91,845	$ 32,119	$ 59,726	$ 93,508	$ 29,504	$ 64,004

(iii) Structured settlements
Through its subsidiary, the Corporation settles some long-term disability claims by purchasing annuities from various financial institutions. The settlements legally release the Corporation from its obligations to the claimants. Consequently, neither the annuities purchased nor the claim liabilities are recognized on the Consolidated Statement of Financial Position. However, as part of the settlement, the Corporation provides a financial guarantee

to the claimants in the event the financial institutions default on the scheduled payments. As at December 31, 2006, no information has come to the Corporation's attention that would suggest any weakness or failure in the financial institutions from which it has purchased the annuities. Consequently, no provision for credit risk is required. The net present value of the scheduled payments as of the year end date is $1,245,000 (2006 – $1,427,000).

9. SHARE CAPITAL

Authorized:

Unlimited number of common shares with no par value.
Unlimited number of non-voting first preferred shares.

	(thousands of $)	
Issued and fully paid:	2007	2006
6,155,616 common shares	$ 27,254	$ 27,254

10. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $)	
	2007	2006
Interest	$ 4,709	$ 3,995
Pooled equity funds	2,175	1,745
Premium financing	991	897
Net realized (loss) gain on sale of investments	(347)	264
Investments accounted for on the equity basis	195	215
Dividends	10	9
Total investment earnings	$ 7,733	$ 7,125

11. SERVICE AGREEMENT

During 1998, a subsidiary of the Corporation, Coachman, issued an insurance policy to a vehicle rental company (the rental company). The policy provided bodily injury liability coverage on the rental company's vehicles being driven by its customers. The rental company paid the Corporation an annual premium under this policy between $100,000 and $120,000. At the same time, the Corporation made an agreement that allowed the rental company to settle and pay all claims submitted by its customers. Because the insurance coverage was in the name of the Corporation, the rental company was required to report to the Corporation quarterly, on the status of all reported claims and the provision for unpaid claims. As security to guarantee the provision for unpaid claims, a trust account was to be maintained in an amount that would meet the funding of the outstanding liabilities related to the policy.

The agreement with the rental company expired on March 31, 2005. Subsequent to the expiration of the contract, the rental company filed for voluntary receivership. During the receivership proceedings, it was determined that the rental company had not reported claims correctly to Coachman, nor had it deposited the correct amounts in the

trust account. Coachman has since collected the balance held in the trust account of $1,235,000. Review of the outstanding claims during the year resulted in a reduction of $1,532,000 to the provision for unpaid claims and has been included in operations in the current year as an excess from service agreement (2006 – deficiency of $1,588,000).

Coachman is continuing legal action against certain of the parties involved to recover the shortfall related to this service agreement. Any recovery will be accounted for in the year of receipt.

12. INCOME TAXES

The Corporation's provision for (recovery of) income taxes is as follows:

	(thousands of $) 2007	2006
Current	$ 1,055	$ 1,718
Future	1,000	(341)
Total income taxes	$ 2,055	$ 1,377

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes and non-controlling interest. The reasons for the differences are as follows:

	(thousands of $) 2007	2006
Income before income taxes and non-controlling interest	$ 10,940	$ 14,928
Combined federal and provincial tax rate	36.01%	36.47%
Computed tax expense based on combined rate	$ 3,939	$ 5,444
Increase (decrease) resulting from:		
Changes to enacted tax rates	29	–
Non-deductible expenses for tax purposes	30	25
Investment earnings not subject to taxation	(71)	(81)
Valuation allowance	(1,896)	(4,030)
Other	24	19
Total income taxes	$ 2,055	$ 1,377

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	(thousands of $)	
	2007	2006
Future income tax assets		
Tax loss carryforward	$ 1,993	$ 4,927
Provision for unpaid claims	1,836	1,794
Other	29	27
	3,858	6,748
Less: valuation allowance	–	(1,896)
Total future income tax assets	3,858	4,852
Future income tax liabilities		
Investments	1,158	1,073
Unpaid claims recoverable from reinsurers	797	629
Total future income tax liabilities	1,955	1,702
Net future income tax assets	$ 1,903	$ 3,150

The Corporation has non-capital loss carryforwards of approximately $5,949,000 (2006 – $13,639,000) that expire in 2015.

13. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	2007	2006
Accounts receivable	$ 1,792	$ 106
Deferred policy acquisition costs	(1,630)	(1,148)
Reinsurers' share of unearned premiums	(232)	(116)
Unpaid claims recoverable from reinsurers	(2,615)	162
Accounts payable	(3,203)	(335)
Premium taxes payable	267	129
Amounts due to reinsurers	3,581	2,900
Unearned reinsurance commissions	53	20
Unearned premiums	5,790	4,900
Provision for unpaid claims	(1,663)	(10,938)
	$ 2,140	$ (4,320)

14. FAIR VALUE

The fair value of financial assets and liabilities, other than investments (notes 2 and 5), unpaid claims and unpaid claims recoverable from reinsurers (notes 7 and 8), approximate carrying value due to their immediate or short-term nature.

15. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, ministries, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties"). Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms.
Transactions and amounts outstanding at year-end are as follows:

	(thousands of $)	
Category	2007	2006
Accounts receivable	$ 15	$ 17
Investments	1,694	1,646
Claims incurred	11	-
Administrative expenses	293	23
Investment earnings	82	111

SGI CANADA provides management and administrative services to the Corporation as well as being one of its reinsurers (note 7). Administrative and loss adjusting expenses incurred by SGI CANADA and charged to the Corporation were $3,125,000 (2006 – $2,475,000) and accounts payable are $1,415,000 (2006 – $528,000). Related to the Corporation's reinsurance agreement with SGI CANADA is $18,245,000 (2006 – $14,345,000) of accounts payable, nil (2006 – $598,000) of accounts receivable and $854,000 (2006 – $677,000) of interest paid included in investment earnings. Reinsurance ceded to SGI CANADA has reduced premiums earned by $3,451,000 (2006 – $2,887,000) and claims incurred by $5,672,000 (2006 – $4,260,000).

The Corporation has direct premiums that are brokered through Charlie Cooke Insurance Agency Ltd. (CCIA), pays claim adjusting fees to Atlantic Adjusting & Appraisals Ltd. (AAA) and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation (MFAC). These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business.

During the year, the Corporation provided CCIA a $450,000 loan for the purpose of purchasing a brokerage. The terms of the agreement provide for repayment in six annual instalments of $75,000 and require CCIA to maintain minimum premium limits. The loan has been recorded at its fair value of $381,000, calculated by discounting the scheduled instalments at an interest rate that reflects the term and credit risk associated with the loan. The difference of $69,000 has been recorded as an offset to interest revenue within investment earnings.

Transactions and amounts outstanding between the Corporation and CCIA, AAA and MFAC at year-end are as follows:

Category	(thousands of $) 2007	2006
Accounts receivable	$ 928	$ 453
Accounts payable	648	407
Premiums written	8,651	8,102
Claims incurred	387	392
Commissions	1,838	1,487
Premiums financed	3,471	3,329

In 2003, the Corporation entered into an agreement with SGI CANADA through its subsidiary Coachman, whereby SGI CANADA would transfer to Coachman net amounts recoverable after December 31, 2002, on reinsurance for adverse loss development on Coachman losses occurring prior to April 30, 2001. Coachman will reimburse SGI CANADA for any costs it may incur under the reinsurance contract. At December 31, 2007, $3,447,000 (2006 – $3,519,000) was accrued under this reinsurance policy.

One of the Corporation's subsidiaries, ICPEI, has a director who is the owner of an organization that provided professional services to ICPEI. During the current year, these services amounted to $21,000 (2006 – $19,000).

Other related party transactions are disclosed separately in the notes to the financial statements.

16. FACILITY ASSOCIATION PARTICIPATION

The Corporation is a participant in automobile residual market and risk-sharing pools, whereby companies in the industry are required by regulation to provide automobile insurance coverage to high-risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $) 2007	2006
Gross premiums written	$ 1,006	$ 432
Net premiums earned	$ 1,094	$ 646
Claims incurred	831	(64)
Commissions	100	67
Premium taxes	36	21
Administrative expenses	199	154
Total claims and expenses	1,166	178
Underwriting profit (loss)	(72)	468
Investment earnings	205	129
Net income	$ 133	$ 597
Facility Association receivable	$ 3,675	$ 4,264
Unearned premiums	462	523
Provision for unpaid claims	2,730	2,804
Facility Association payable	3,526	3,500

17. SEGMENTED INFORMATION

The Corporation provides property and casualty insurance through three operating segments: Manitoba and Alberta, Ontario and the Maritimes (where the Maritimes represents Prince Edward Island, New Brunswick and Nova Scotia). These operating segments correspond with the legal entities that make up the Corporation, as discussed in note 1. The performance of each operating segment is reported separately to the Corporation's Board of Directors.

(thousands of $)

2007	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 21,859	$ 23,182	$ 10,744	$ –	$ 55,785
Net premiums earned	$ 18,162	$ 22,836	$ 9,480	$ –	$ 50,478
Claims incurred	11,380	12,819	5,230	–	29,429
Other expenses	7,776	7,734	3,864	–	19,374
Underwriting profit (loss)	(994)	2,283	386	–	1,675
Investment earnings	2,530	4,391	812		7,733
Income before the following:	1,536	6,674	1,198	–	9,408
Excess from service agreement	-	(1,532)	-	–	(1,532)
Income taxes	407	1,189	459	–	2,055
Non-controlling interest	–	–	–	166	166
Net income	$ 1,129	$ 7,017	$ 739	$ (166)	$ 8,719
Total assets	$ 94,496	$117,355	$ 32,511	$ (14,866)	$229,496
Shareholder's equity	$ 33,744	$ 34,816	$ 8,362	$ (1,709)	$ 75,213

(thousands of $)

2006	Manitoba and Alberta	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$ 14,136	$ 26,064	$ 8,567	$ –	$ 48,767
Net premiums earned	$ 12,285	$ 23,352	$ 8,380	$ –	$ 44,017
Claims incurred	7,357	8,091	3,315	–	18,763
Other expenses	5,345	7,836	2,682	–	15,863
Underwriting profit (loss)	(417)	7,425	2,383	–	9,391
Investment earnings	2,225	4,073	827		7,125
Income before the following:	1,808	11,498	3,210	–	16,516
Deficiency from service agreement	–	1,588	–	–	1,588
Income taxes (recovery)	603	(442)	1,216	–	1,377
Non-controlling interest	–	–	–	480	480
Net income	$ 1,205	$ 10,352	$ 1,994	$ (480)	$ 13,071
Total assets	$ 77,731	$119,927	$ 30,129	$ (11,926)	$215,861
Shareholder's equity	$ 31,853	$ 27,665	$ 8,594	$ (1,792)	$ 66,320

18. COMMITMENTS AND CONTINGENCIES

The Corporation's subsidiary, Coachman, has a lease for its office premises expiring December 31, 2008, at an annual rent of $186,000.

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position or results of operation of the Corporation.

19. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2006 balances have been reclassified to conform to 2007 financial statement presentation.

SG
CANADA